

Decision **PROPOSED DECISION OF ALJ AYOADE** (Mailed 1/22/2016)

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of SOUTHERN CALIFORNIA EDISON COMPANY (U338E) to issue, sell, and deliver one or more series of Debt Securities and guarantee the obligations of others in respect of the issuance of Debt Securities, the total aggregate principal amount of such indebtedness and guarantees not to exceed \$3,375,000,000; to execute and deliver one or more indentures; to sell, lease, assign, mortgage, or otherwise dispose of or encumber utility property; to issue, sell and deliver in one or more series, an aggregate amount not to exceed \$1,450,000,000 par or stated value of Cumulative Preferred Stock -- \$25 Par Value, \$100 Cumulative Preferred Stock -- \$100 Par Value, Preference Stock or any combination thereof, and guarantee the obligations of others in respect of the issuance of that Preferred or Preference Stock.

Application 15-10-001
(Filed October 2, 2015)

**PROPOSED DECISION AUTHORIZING SOUTHERN CALIFORNIA EDISON
COMPANY TO ISSUE DEBT AND PREFERRED EQUITY SECURITIES**

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PROPOSED DECISION AUTHORIZING SOUTHERN CALIFORNIA EDISON COMPANY TO ISSUE DEBT AND PREFERRED EQUITY SECURITIES**Summary**

Pursuant to Application 15-10-001 (A.15-10-001, or application), Southern California Edison Company (SCE) seeks authority to issue Debt Securities in an aggregate amount not to exceed \$3.375 billion and to issue Preferred Equity Securities in an amount not to exceed \$1.450 billion.

In response to A.15-10-001, this decision grants SCE authority pursuant to Public Utilities Code Sections 816-818, 821, 830, and 851¹ to do the following:

1. Issue Debt Securities including Debt Securities secured by utility property and accounts receivable in an aggregate principal amount not to exceed \$3.375 billion.
2. Issue Preferred Equity Securities in an aggregate principal amount not to exceed \$1.450 billion.
3. Use debt enhancements, swaps, and hedges to lower the cost of the Debt Securities and reduce financial risks.
4. Guarantee the obligations of regulated affiliates and governmental entities that are incurred on behalf of SCE for the purposes authorized by this decision.
5. Renew and/or refund commercial paper and other floating or variable rate Debt Securities, so that the combined term of the obligations may exceed twelve months without the need for further authorization from the Commission.
6. Arrange credit agreements or other credit facilities as may be necessary for the purpose of issuing the Debt Securities, and to modify such credit facilities.

¹ In this decision, all statutory references are to the Public Utilities Code (Pub. Util. Code) unless otherwise indicated.

7. Execute and deliver an indenture or supplemental indenture in connection with any issue of Debt Securities, and to sell, lease, assign, mortgage, or otherwise dispose of or encumber utility property in connection with the issuance and sale of Debt Securities.
8. Pledge or otherwise dispose of or encumber its accounts receivable in connection with the issuance and sale of Debt Securities.
9. Issue and sell, and deliver Debt Securities by public offering or private placement.
10. Utilize at its discretion debt enhancements to improve the terms and conditions of the Debt Securities.

SCE may use the proceeds from the Debt Securities and Preferred Equity Securities authorized by this decision to finance its capital expenditures, refinance its maturing long-term debt, and refinance its issued Preferred Equity Securities during the projected years.

These authorized uses herein will help SCE fulfill its obligation under § 451 to “furnish and maintain such adequate, efficient, just, and reasonable service, instrumentalities, equipment, and facilities...as are necessary to promote the safety, health, comfort, and convenience of its patrons, employees, and the public.” The cost of the Debt Securities and Preferred Equity Securities will depend on market conditions when the securities are issued. Additionally, the authority granted herein will enable SCE meet and address unforeseen capital needs, financial market disruptions, other unexpected events, and to take advantage of potential opportunities to refinance existing debt and preferred equity at lower interest rates.

No later than 30 days from the effective date of this decision, SCE shall pay a fee of \$1.006 million pursuant to § 1904(b) and 1904.1. The authority granted

by this decision shall become effective upon SCE's payment of the § 1904(b) and § 1904.1 fee.

This decision denies SCE's request for authority to use debt enhancements, swaps, and hedges in connection with the Preferred Equity Securities authorized by this decision pursuant to Decision (D.)12-06-015. As discussed further in Section 4.3 of this decision below, debt enhancements, swaps, and hedges may not be used with Preferred Equity Securities.

1. Procedural Background

SCE is a public utility subject to the Commission's authority and jurisdiction. SCE filed A.15-10-001 on October 2, 2015, and on October 6, 2015, notice of the application appeared in the Commission's Daily Calendar. On October 22, 2015, Resolution ALJ 176-3365 preliminarily categorized A.15-10-001 as a ratesetting proceeding. The Commission determined that a hearing was not necessary. There were no protests or responses to the application. On November 13 and 18, 2015, SCE served documents that provided additional information requested by the assigned Administrative Law Judge (ALJ) regarding the application.

2. Request to Issue Debt and Preferred Equity

In its application, SCE requests authority to issue \$4.825 billion of new Debt and Preferred Equity. Of the \$4.825 billion, \$780 million is requested for contingency purposes. In support of its request, SCE provided information regarding its projected capital expenditures, cash requirements, and sources of cash for years 2015-2017. These and other details of SCE's requests are discussed in details below in Section 3 of this decision.

3. Summary of SCE's Requests in A.15-10-001**3.1. Requested Authorizations and Findings**

SCE requests that the Commission issue an order pursuant to §§ 816, 817, 818, 821, 830, and 851 authorizing SCE to do the following:

1. Issue, sell, and deliver one or more series of Debt Securities with an aggregate principal amount of up to \$3.375 billion (hereafter, "Debt Securities" or "Debt"). The specific types of Debt Securities are identified in Section 3.3 of this decision.
2. Renew and/or refund commercial paper and other floating-rate or variable-rate Debt Securities, so that the combined term of the obligations may exceed 12 months without further authorization from the Commission.
3. Arrange credit facilities for the purpose of issuing Debt Securities and to modify such credit facilities without further authorization from the Commission.
4. Execute and deliver an indenture or supplemental indenture in connection with the Debt Securities and to sell, lease, assign, mortgage, or otherwise encumber and dispose of utility property in connection with the Debt Securities.
5. Pledge, encumber, and dispose of its accounts receivable in connection with the issuance and sale of Debt Securities.
6. Issue, sell, and deliver Debt Securities by public offering or private placement.
7. Issue, sell, and deliver one or more series of Preferred Equity Securities with an aggregate principal amount of up to \$1.450 billion (hereafter, "Preferred Equity Securities"). The specific types of Preferred Equity Securities are identified in Section 3.6 of this decision.

8. Guarantee the securities and obligations of governmental entities and SCE regulated affiliates, the proceeds of which are used for the benefit of SCE.
9. Use the proceeds from the Debt Securities and Preferred Equity Securities for the purposes specified in Section 3.2 of this decision.
10. Utilize the debt enhancements, swaps, and hedges described in Sections 3.4 and 3.5 of this decision.

SCE further requests that the Commission find, pursuant to Pub. Util. Code § 818, that the money, property, or labor to be procured or paid for with the proceeds from the Debt Securities and Preferred Equity Securities is reasonably required for the purposes so specified, and that, except as permitted in the order in the case of bonds, notes, or other evidences of indebtedness, such purposes are not, in whole or in part, reasonably chargeable to operating expenses or income.

3.2. Use of Proceeds, Sources and Uses of Funds

SCE requests authority to use the proceeds from the sale of the Debt Securities and Preferred Equity Securities for the following purposes: (1) pay expenses incident to the issuance and sale of the securities; (2) acquire utility property; (3) construct, complete, extend, or improve utility facilities; (4) retire or refund securities previously issued for which SCE paid the fees levied by Pub. Util. Code § 1904; and (5) reimburse SCE for money it has expended from its income, or from money in its treasury not secured by or obtained from the issuance of debt or equity, for any of the previous purposes except maintenance of service and replacements. The amounts so reimbursed will become a part of SCE's general treasury funds.

SCE's request for authority to issue new debt and equity securities is based, in part, on SCE's forecasted sources and uses of funds. SCE's forecast

covers the years 2015-2017 and shows its future financing needs for the acquisition of property, construction or improvement of facilities, retirement/refunding of securities previously issued, reimbursement of its treasury and other unforeseen contingencies. SCE's forecasted sources and uses of funds years for 2015-2017 are as shown in Table 1 below.

Table 1

SCE's Sources and Uses of Fund for 2015-2017

(\$ Millions)

<u>Description</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>Total</u>
Uses:				
Capital Expenditures	\$4,099	\$4,566	\$4,398	\$13,063
LTD ² Maturities/Refinancing	\$339	\$1,779	\$479	\$2,597
Preferred Equity Refinancing	\$325	\$1,120	-	\$1,445
Subtotal	\$4,763	\$7,465	\$4,877	\$17,105
Contingency Request	-	-	\$780	\$780³
Total Cash Requirements	\$4,763	\$7,465	\$5,657	\$17,885
Sources:				
Cash from Operations ⁴	(\$2,638)	(\$3,020)	(\$3,727)	(\$ 9,385)
Net Cash Need	<u>\$2,125</u>	<u>\$4,445</u>	<u>\$1,930</u>	<u>\$ 8,500</u>

² LTD means Long-Term Debt.

³ In SCE's November 13, 2015 response, SCE indicated that it included a contingency cash requirement of \$780 million in its uses of funds forecast for the years 2015-2017. The contingency cash requirement will be reserved to finance construction expenditures and/or acquisition of property.

⁴ Operating revenues less operating expenses and other costs which cannot be financed.

Based on Table 1, above, SCE has a forecasted cash need of \$8.5 billion, which SCE must meet from external sources over the years 2015-2017. SCE intends to meet its net cash need of \$8.5 billion in three ways: (1) funding from \$2.050 billion in remaining-but-not-yet-used debt authority in D.10-08-002 and D.14-03-005; (2) funding from \$1.625 billion in financing already completed in 2015; and (3) funding from the \$4.825 billion Debt and Equity Securities financing authority requested in A.15-10-001.

Table 2 below shows SCE's cash requirements for years 2015-2017 and additional sources of funds that would be available to SCE between 2015 and 2017, as follows:

Table 2

SCE's Years 2015-2017 Projected Sources of Cash
(\$ Millions)

Total Cash Requirements 2015-2017	\$17,885
Operating Revenues	(\$9,385)
New Cash Need for 2015-2017	<u>\$8,500</u>
(Less) Financing Completed in 2015	(\$1,625)
(Less) Remaining Authority	(\$2,050)
Adjusted Net Cash Need	<u>(\$4,825)</u>

Source: A.15-10-001 and SCE's Response to the ALJ's Request for Information.

As shown above, SCE has a net cash need of \$4.825 billion, after accounting for all available funds from all sources, including operating revenues, recently completed (2015) financing, and existing but not yet used financing authority. SCE's request for new financing authority in A.15-10-001 is \$4.825 billion.

SCE explains that \$4.045 billion of the \$4.825 billion in new financing authority requested would be used to fund its forecasted cash shortfall, fund its capital expenditures, refinance its maturing long-term debt, and refinance its outstanding but not maturing preferred equity. The remaining \$780 million is requested as contingency financing authority (contingency authority). The \$780 million contingency authority, according to SCE, would be used to address unforeseen capital needs, financial market disruptions, other unexpected events, and to take advantage of potential opportunities to refinance existing debt and preferred equity at lower interest rates.

An analysis of SCE's financial data established that SCE has a need for the additional financing authority requested as further discussed below. The requested authority will enable SCE to meet its operational needs and help it fulfill its obligations to its customers, and enable SCE to meet and address unforeseen contingencies.⁵ The requested financing authority, if granted, would allow SCE to fund the majority of its financing needs for the period 2015-2017 to the extent authorized by § 817(a), (b), (c), (d), and (h).

3.3. Types of Debt Securities

SCE requests authority to issue one or more series of Debt Securities, with the type of Debt Security, principal amount, terms and conditions of each issuance to be determined by SCE based on market conditions at the time of sale and issuance. The requested Debt Securities may bear a fixed, floating or

⁵ In evaluating A.15-10-001, the ALJ worked with the Commission's Utility Audit, Finance and Compliance Branch (UAFCB) staff, who reviewed and analyzed SCE's application and financial data. UAFCB requested clarifying and additional information from SCE on behalf of the ALJ. Based on its opinion, UAFCB believes that SCE's financial position is adequate, and that the financing authority requested by SCE will assist SCE to meet its operational needs and help it fulfill its obligations to its customers.

variable rate of interest; may be issued at par or with an original issue discount or premium; and may have maturities of up to 100 years.

SCE requests authority to sell Debt Securities by public offering or private placement. If by public offering, the Debt Securities may be registered with the Securities and Exchange Commission and listed on a stock exchange. SCE also seeks authority to issue Debt Securities itself or through an affiliate that will, in turn, lend or otherwise transfer the proceeds to, or for the benefit of, SCE.

The specific types of Debt Securities for which SCE requests authority to issue are identified below.

A. Secured Debt Securities.

Secured Debt Securities would be secured by an encumbrance on utility property. Secured Debt Securities may be issued in the form of mortgage bonds, or as part of a “fall-away” mortgage bond structure where mortgage bonds are initially issued and later converted into unsecured debt. In addition, SCE may issue, pledge, or deliver secured Debt Securities as a means of securing other authorized indebtedness. Because each new series of secured Debt Securities would be an additional encumbrance on utility property, SCE requests authority under § 851 to encumber it utility property.

B. Accounts receivable financing.

Accounts receivable financing would consist of Debt Securities secured by a pledge, sale, or assignment of SCE’s accounts receivable. Using accounts receivable as collateral may make it possible to obtain financing at interest rates lower than SCE’s short-term borrowing costs. Because accounts receivable financing would be an encumbrance on utility property, SCE requests authority under § 851 to encumber utility property.

- C. Unsecured Senior or Subordinate Debt Securities.
Unsecured senior or subordinate Debt Securities may be in the form of debentures, notes, preferred securities, senior debt, subordinated debt, or other evidences of indebtedness. Unsecured Debt Securities may be issued under trust preferred indentures. In such instances, SCE would create a subsidiary, usually in the form of a trust that would issue preferred securities to the public. The preferred securities would represent an interest in unsecured Debt Securities issued by SCE to the trust, and would also be guaranteed by SCE.
- D. Hybrid Debt Securities.
Hybrid Debt Securities would have characteristics of both debt and equity, and thus are given partial equity treatment by rating agencies. The terms of hybrid Debt Securities may include (i) restrictive redemption provisions; (ii) interest rates that may be fixed, floating, adjustable, or deferrable; (iii) mandatory sinking funds; and (iv) such other provisions as SCE deems appropriate. SCE would treat hybrid securities similar to preferred equity in its cost of capital proceedings and in determining compliance with its authorized capital structure. SCE believes it may be able to issue hybrid Debt Securities as a lower cost alternative to Preferred Equity Securities. The hybrid securities may be issued directly to the public or structured as a trust preferred security.
- E. Overseas Debt Securities.
Overseas Debt Securities would ultimately be sold to foreign investors and would likely be denominated in U.S. dollars. These securities would be used only when they provide lower cost of money than similar domestic securities.
- F. Foreign Currency Denominated Debt Securities.
Foreign Currency Denominated Debt Securities would pay principal and interest in a foreign currency, and may be sold to foreign or domestic investors. In conjunction with foreign currency denominated

securities, SCE or an affiliate may enter into forward contracts that obligate a counterparty to pay the foreign currency needed for principal and interest payments. In exchange, SCE or an affiliate would pay the counterparty U.S. dollars based on a prearranged formula. Foreign currency denominated securities would be issued only when it results in lower cost of money, including all transaction and foreign exchange contract costs, than comparable U.S. dollar denominated securities.

G. Medium-Term Notes (MTNs).

MTNs may be offered on a continuous or periodic basis, sold in the domestic or foreign markets, and denominated in U.S. dollars or a foreign currency. If MTNs are sold through a placement agent, SCE or an affiliate would set the interest rate at which it would be willing to issue MTNs of various maturities. The interest rate could be updated continuously to reflect market conditions and SCE's need for funds.

H. Direct Loans.

Direct Loans would be obtained from banks, insurance companies, or other financial institutions. To obtain loans, SCE may enter into loan or credit agreements, including agreements on a revolving basis, and SCE may secure loans by issuing mortgage bonds to the lenders. SCE would enter into direct loans only when doing so results in lower cost of money than other forms of debt, when necessary as an interim arrangement, or for other reasons.

I. Commercial Paper.

Commercial paper and other short-term debt that roll over previously issued commercial paper may be issued. SCE anticipates that it or an affiliate (acting at SCE's direction) would arrange credit agreements with financial institutions to provide liquidity support for

commercial paper. The cost of commercial paper would include the effective yield, issuance expenses, rating fees, and credit facility fees.⁶

- J. Other Floating or Variable-Rate Debt.
Other floating variable-rate debt would consist of all other forms of floating or variable-rate debt that SCE and/or an affiliate may issue when doing so results in a lower cost of money. Interest rates may be based on various short-term interest rates indices or bankers' acceptances, and may vary based on changes in SCE's credit ratings or other factors.

3.4. Debt Enhancements

SCE requests authority to include at its discretion the following features in its Debt Securities to enhance the price, rates, terms, and/or conditions for the benefit of ratepayers.

- A. Credit Enhancements.
Credit enhancements may include letters of credit, standby bond purchase agreements, surety bonds, insurance policies, or other credit-support arrangements to reduce interest costs or improve other credit terms.
- B. Redemption Provisions/Call Options.
Redemption provisions and call options would allow Debt Securities to be redeemed or repaid prior to maturity at a stated price. These features would enable SCE, if market rates fall, to replace outstanding debt with lower-cost debt. In any case, the Debt Securities would be redeemable at a premium over par or at a stated price such as par.
- C. Put Options.
Put Options would provide the owner of a Debt Security with the right to sell the security to SCE or an

⁶ SCE does not request authority to issue short-term debt pursuant to § 823(c).

affiliate at a specified price. Investors may be willing to accept a lower interest rate in exchange for a put option that protects the value of the owner's investment in Debt Securities.

D. Sinking Funds.

Sinking funds would require SCE to periodically set aside funds to redeem, repurchase, or retire a specified amount of Debt Securities. SCE anticipates that the cost of Debt Securities may be reduced by sinking funds.

E. Tax-exempt Debt Securities.

Tax-exempt Debt Securities would be issued through a governmental body or other conduit issuer to finance facilities that qualify for tax-exempt financing under federal and/or state law. To obtain the low-cost benefits of tax-exempt financing, SCE may structure financings as follows:

1. A governmental body would issue and sell its bonds, notes, debentures, or other securities to underwriters who would ultimately market such securities to investors.
2. Concurrent with the sale of such securities and in consideration for the proceeds from the securities, SCE would enter into a loan agreement or other security agreement with the issuer. Pollution control or other facilities may be conveyed to the issuer and then re-conveyed to SCE in exchange for SCE Debt Securities. Control of the facilities would stay with SCE at all times.

The obligations of SCE would be substantially consistent with the terms and conditions of the governmental issuer's securities, and SCE would guarantee or otherwise secure the issuer's obligations to its debt holders. As a means of securing the issuer's obligations, SCE may issue, pledge, or deliver bonds in an equal principal amount to the issuer or a trustee.

F. Warrants.

Warrants would provide the owner of a Debt Security with the right to purchase another debt security or a share of capital stock at a pre-established price. No additional underwriting fees would be incurred upon exercise of the warrants. SCE posits that even if the warrants are exercised, ratepayers would realize savings because of the premium received from the sale of the warrants.

3.5. Swaps and Hedges

SCE seeks authority to enter into swap agreements to improve the terms and conditions of Debt Securities and Preferred Equity Securities for the benefit of ratepayers. Swaps may enable SCE to reduce its borrowing costs by issuing a fixed or floating-rate security and concurrently entering into interest rate swap contracts to convert fixed interest payments into favorable floating-rate payments or vice versa, or to convert floating-rate payments tied to one index into floating-rate payments tied to another index. Swaps can reduce financing costs if the resulting interest rate is lower than SCE could have obtained by issuing a comparable security directly.

SCE also requests authority to enter into contracts to hedge certain financial risks associated with the Debt Securities and Preferred Equity Securities. To hedge the risk that interest rates for floating-rate securities may cause, SCE may enter into contracts that limit SCE's exposure to higher interest rates, including interest rate caps, floors, collars,⁷ and swaps.

⁷ To reduce exposure to higher interest rates, SCE may negotiate a maximum "cap" rate. If floating rates rises above the cap rate, SCE would pay only the cap rate. The counterparty to the contract may desire a floor rate so that if the floating rate falls below the floor rate, SCE would pay the floor rate. Such floor and cap rates are known as collars because the interest rate fluctuates within a negotiated band.

To hedge the risk of increased interest rates associated with planned issuances of fixed-rate securities, SCE may enter into contracts for interest rate locks, caps, collars, and forward-starting swaps. Interest rate locks and caps would “lock in” or cap the forward interest rate of a specified Treasury or other security on which a fixed-rate SCE security will be priced at some future date. Collars “lock in” a range of forward rates of a specified Treasury or other security on which a fixed-rate SCE security will be priced at some future date.

To hedge the overall cost of a planned issuance, not just the underlying interest rate, SCE may enter into forward-starting swaps with an effective start date of weeks, months, or years in the future. These types of swaps fix the cost of borrowing today without having to start the transaction right away.

Finally, to hedge risks associated with securities denominated in a foreign currency, SCE may enter into currency swaps and swaps denominated in a foreign currency, including forward-starting swaps.

SCE may guarantee the swaps and hedges of affiliates. All swaps and hedges will comply with the requirements set forth in D.12-06-015, which are summarized later in this decision. SCE requests that swaps and hedges not be counted as separate debt for purposes of calculating its remaining financing authority under this decision.

3.6. Types of Preferred Equity Securities

SCE requests authority to issue, sell, and deliver one or more series of Cumulative Preferred Stock - \$25 Par Value, Cumulative Preferred Stock - \$100 Par Value, and Preference Stock as authorized in SCE’s articles of incorporation (together, Preferred Equity Securities). SCE also seeks authority to guarantee the securities or other obligations of regulated affiliates in connection with the issuance of Preferred Equity Securities.

The method of sale, terms, and conditions of each offering will be determined by SCE based on market conditions at that time. The price, dividend rate, voting rights, liquidation preferences, and other rights, preferences, privileges, and restrictions applicable to each series of Preferred Equity Securities will be fixed by resolution of SCE's board of directors or a committee thereof, and a certificate of preferences which includes the content of such resolution will be filed with the California Secretary of State. SCE anticipates that the Preferred Equity Securities may include (i) restrictive redemption provisions; (ii) dividend rates that may be fixed or variable; and (iii) mandatory sinking funds.

SCE may issue Preferred Equity Securities via trust preferred securities. In such an issuance, SCE would create an affiliate in the form of a trust or other entity that would issue preferred securities to the public. The preferred securities would represent an interest in the Preferred Equity Securities issued by SCE to the trust and would be guaranteed by SCE. SCE may also issue Preferred Equity Securities via depositary shares to investors. Each depositary share would represent a fractional interest in one share of a Preferred Equity Security. The depositary shares would have identical terms as the underlying Preferred Equity Securities that are held by a custodian, typically a large bank. Issuing depositary shares would allow SCE to utilize fewer of its authorized shares, thereby avoiding the costly process of amending its Articles of Incorporation to increase the number of authorized shares.

4. Discussion**4.1. Authority to Issue Debt and Preferred Equity Securities**

SCE's application for authority to issue \$3.375 billion of Debt Securities and \$1.450 billion of Preferred Equity Securities is subject to §§ 816, 817, 818, 821, 830, and 851. Each of these laws is discussed below.

4.1.1. Public Utilities Code § 816

Section 816 provides the Commission with broad discretion to (1) determine if a utility should be authorized to issue Debt Securities and preferred Equity Securities; and (2) attach conditions to the issuance of securities in order to protect and promote the public interest. For the reasons set forth below, we find that it is reasonable to authorize SCE to issue \$3.375 billion of Debt Securities and \$1.450 billion of Preferred Equity Securities pursuant to § 816, subject to several conditions.

4.1.2. Public Utilities Code § 817

Section 817 provides that a public utility may issue long-term debt and preferred equity only for the purposes specified in § 817. Here, SCE requests authority to issue \$3.375 billion of Debt Securities and \$1.450 billion of Preferred Equity Securities for the following purposes: (1) pay expenses incident to the issuance and sale of the securities; (2) acquire utility property; (3) construct, complete, extend, or improve utility facilities; (4) retire or refund securities previously issued; and (5) reimburse SCE for money it has expended from its income, and from funds in its treasury that are not secured by or obtained from the issuance of debt or equity, for any of the previous purposes except maintenance of service and replacements with the amounts so reimbursed becoming part of SCE's general treasury funds.

We find that SCE's request to issue Debt Securities and Preferred Equity Securities for the previously identified purposes is permitted by the following subsections of § 817:

- § 817(a) authorizes the issuance of long-term debt and preferred equity to acquire property. We consider capital expenditures, to the extent such expenditures are used to acquire property, to be within the ambit of § 817(a).
- § 817(b) authorizes the issuance of long-term debt and preferred equity to construct, complete, extend, or improve utility facilities. We consider capital expenditures to be squarely within the ambit of § 817(b).
- § 817(c) authorizes the issuance of long-term debt and preferred equity to maintain or improve service. We consider capital expenditures to be necessary for the maintenance and improvement of public utility services and, therefore, within the ambit of § 817(c).
- § 817(d) authorizes the issuance of long-term debt and preferred equity to discharge or lawfully refund a utility's obligations. We consider the issuance of the requested Debt Securities and Preferred Equity Securities to retire, refund, or refinance long-term debt and preferred equity during 2015-2017 to be within the ambit of § 817(d).
- § 817(g) authorizes the issuance of long-term debt and preferred equity to retire, or in exchange for, outstanding long-term debt and preferred equity. We consider the use of the requested Debt Securities and Preferred Equity Securities to refinance maturing long-term debt and outstanding preferred equity during 2015-2017 to be within the ambit of § 817(g).
- § 817(h) authorizes the issuance of long-term debt and preferred equity to reimburse a utility for money expended from its income, or from funds in the utility's

treasury not secured by or obtained from the issuance of debt or equity, for any of the previous purposes except maintenance of service and replacements, but only in cases where the utility has kept its accounts in a way that enables the Commission to ascertain the amount of money so expended and the purposes for which such expenditure was made. Here, SCE requests authority to use the proceeds from the Debt Securities and Preferred Equity Securities to reimburse SCE for money expended for the purposes authorized by § 817(h), with the money having come from SCE's income and/or from funds in SCE's treasury that were not secured by, or obtained from, the issuance of debt or equity. SCE is required by law to maintain its accounts in a manner consistent with § 817(h).

We conclude that SCE's request herein to issue new Debt Securities and Preferred Equity Securities satisfies the requirement of § 817, and should be granted for up to \$4.825 billion, as requested.

4.1.3. Public Utilities Code § 818

Section 818 provides that a public utility may not issue long-term debt and preferred equity unless it has first secured a Commission order authorizing the debt and preferred equity, stating the amount thereof, and the purposes to which the proceeds thereof are to be applied. Section 818 further requires the Commission to find that the money, property, and/or labor to be procured with the proceeds from the long-term debt and preferred equity are reasonably required for the purposes specified in the order, and that such purposes are not reasonably chargeable to expenses or income.

In compliance with § 818, SCE filed this instant application A.15-10-001, seeking \$4.825 billion in new financing authority (\$3.375 billion of Debt Securities and \$1.450 billion of Preferred Equity Securities), for the purpose of financing its capital expenditures for years 2015-2017, refinance certain issued debts and

equity securities, and address unforeseen contingencies as set forth in Table 1 above. SCE's application meets the requirements of § 818.

Further, SCE provided specific information about its proposed use of the proceeds from the authority requested. As contained in Exhibit B to A.15-10-001, SCE's projected capital expenditures' budget for the years 2015-2017 is \$13.063 billion, and SCE intends to fund its capital expenditures with the proceeds from the financing authority requested herein, as reflected in Table 3 below.

Table 3
SCE's Capital Expenditures Forecast for 2015-2017
(\$ in Millions)

Expense	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>Total</u>
Distribution	\$3.122	\$3.262	\$3.125	\$ 9.509
Transmission	\$0.771	\$1.088	\$1.080	\$ 2.939
Generation	<u>\$0.205</u>	<u>\$0.217</u>	<u>\$0.193</u>	<u>\$ 0.615</u>
Total	<u>\$4.098</u>	<u>\$4.567</u>	<u>\$4.398</u>	<u>\$13.063</u>

Looking at SCE's overall financial picture, SCE has a total cash need of \$17.105 billion for the years 2015-2017, as discussed in section 3.2 of this decision above (see Table 1).⁸ Of the \$17.105 billion total cash requirements, SCE would source internally \$9.385 billion from projected operating revenues for 2015-2017, leaving SCE with \$7.720 billion in additional cash requirements that it must meet from other sources. Identifying other available sources, SCE indicated that it recently completed a new financing in the amount of \$1.625 billion in 2015, and that

⁸ That is, \$13.063 billion for capital expenditures, \$2.597 billion to refinance maturing long-term debts securities, and \$1.445 billion to refinance preferred equity securities.

it has additional \$2.050 billion in existing but not-yet-used financing authority.

When all the sources of cash available to SCE are added together (\$13.060 billion), and the total is deducted from the \$17.105 billion total cash requirements for years 2015-2017, SCE has a \$4.045 billion cash shortfall. Based on its application, and its November 2015 response to the ALJ questions, the \$4.045 billion cash shortfall for years 2015-2017, plus an estimated contingency cash requirement of \$780 million, is the basis of the \$4.825 billion new financing authority sought in A.15-10-001. According to SCE, the contingency authority will be reserved to finance construction expenditures and/or acquisition of property, and would be used for purposes that are consistent with § 818. SCE established that the contingency financing authority requested is needed to meet and address unforeseen capital needs such as financial market disruptions, and fleeting opportunities to issue debt and preferred equity at attractive rates. Accordingly, we conclude that the requested contingency financing authority is reasonably required for authorized purposes, and that the purposes are not reasonably chargeable to expenses or income.

A review of A.15-10-001 shows that SCE would be unable to adequately finance its electric utility operations and capital expenditures as needed to maintain its plants and improve its services, if the requested new financing authority is not granted.

Accordingly, pursuant to the Commission's authority under § 818, SCE should be authorized to issue only \$3.375 billion of new Debt Securities, and \$1.450 billion of new Preferred Equity Securities for a total \$4.825 billion in new financing authority in order to permit SCE: (1) finance its capital expenditures; (2) refinance its maturing long-term debt as shown in Table 1 above; (3) refinance its outstanding Preferred Equity as shown in Table 1 above; (4) reimburse its

treasury as needed and appropriate for all purposes authorized under § 818; and (5) enable it meet and address unforeseen capital needs, financial market disruptions, other unexpected events, and to take advantage of potential opportunities to refinance existing debt and preferred equity to take advantage of lower interest rates.

We find, pursuant to § 818, that the money, property, and/or labor to be procured with the proceeds of the authorized Debt Securities and Preferred Equity Securities are reasonably required for the purposes specified in this decision, and that such purposes are not reasonably chargeable to expenses or income. Accordingly, SCE's request for new financing authority is reasonable and should be granted in full.

4.1.4. Public Utilities Code § 821

Section 821 provides that a public utility may issue long-term Debt Securities that can be converted into shares of common stock subject to the other provisions of §§ 816-830. Consistent with § 821, this decision grants SCE's request for authority to issue Debt Securities that are convertible into common stock subject to the provisions of §§ 816-830 and the conditions specified in this decision.

4.1.5. Public Utilities Code § 823(d)

Section 823(d) provides that no note payable at a period of not more than 12 months after the date of issuance of such note shall, in whole or in part, be refunded by any issue of stocks or stock certificates or other evidence of interest or ownership, or of bonds, notes of any term or character, or any other evidence of indebtedness, without the consent of the Commission.

We conclude that SCE's request to renew and/or refund commercial paper and other floating or variable-rate debt securities with the proposed Debt

Securities in this application, so that the combined term of the obligations may exceed twelve months without further authorization from the Commission will not be detrimental to SCE's utility operations or the public interest. SCE's request should be granted.

4.1.6. Public Utilities Code § 830

Section 830 provides that a public utility shall not assume any obligation or liability as guarantor, endorser, surety, or otherwise with respect to the debts of another person, firm, or corporation without prior permission from the Commission. In A.15-10-001, SCE requests authority under § 830 to guarantee the securities, debt enhancements, swaps, hedges, and other obligations (together, "obligations") of regulated affiliates and governmental entities. This decision grants SCE's request subject to the following conditions:

- SCE shall only incur obligations that are (i) directly related to the Debt Securities or Preferred Equity Securities authorized by this decision, and (ii) for the purposes authorized by this decision.
- The affiliate's or governmental entity's obligations that are guaranteed by SCE shall have an equal or lower cost than SCE incurring the obligation itself.
- SCE shareholders shall not profit, either directly or indirectly, from the obligations that are guaranteed by SCE.
- The Commission and its staff shall have full and timely access to all of an affiliate's books, records, and other information that pertain to the obligations that are guaranteed by SCE.

4.1.7. Public Utilities Code § 851

SCE requests authority under § 851 to issue Debt Securities secured by utility property. Section 851 provides that a utility shall not sell, lease, assign,

dispose of, or encumber (together, “encumber”) any part of its plant, system, or other property necessary or useful in the performance of its duties to the public without prior approval from the Commission. The Commission has broad discretion under § 851 to authorize or deny an encumbrance of utility property. The primary standard used by the Commission is whether the encumbrance will adversely affect the public interest. When necessary, the Commission may attach conditions to an encumbrance to protect and promote the public interest.

There is nothing in the record of this proceeding which indicates that granting SCE the requested authority under § 851 to issue Debt Securities secured by utility property will be detrimental to SCE’s utility operations or the public interest. To the contrary, secured debt may cost less than unsecured debt, resulting in a lower cost of capital for ratepayers. Therefore, SCE’s request is appropriate and is granted.

The authority granted by this decision to encumber utility property does not include authority to dispose of encumbered property that is necessary or useful in the provision of utility service to the public. Thus, if a default occurs and title to any of SCE’s plant, system, or property that is necessary or useful in the performance of SCE’s duties to the public is transferred pursuant to the terms of a secured debt indenture, the plant, system, or property transferred shall continue to be used to provide utility service to the public until the Commission authorizes otherwise.

4.2. Types of Debt Securities and Preferred Equity Securities

SCE seeks authority to issue (1) types of Debt Securities identified in Section 3.3 of this decision and Section III of A.15-10-001; and (2) types of Preferred Equity Securities identified in Section 3.6 of this decision and

Section VI of A.15-10-001. The Commission believes that public utilities should have reasonable latitude regarding types of debt and preferred equity securities they may issue in order to obtain the lowest cost of capital for ratepayers. A utility's request to issue a specific type of security should be denied only if the requested type is unduly risky or for other good cause. This is not the case here, and therefore, the Commission will grant SCE's request to issue the types of Debt Securities and Preferred Equity Securities described in Sections 3.3 and 3.6 of this decision, respectively.

4.3. Debt Enhancements, Swaps, and Hedges

Debt Securities. SCE requests authority to use the debt enhancements, swaps, and hedges identified in Sections 3.4 and 3.5 of this decision with respect to the Debt Securities authorized by this decision. In D.12-06-015, the Commission authorized utilities to use debt enhancements, swaps, and hedges for Debt Securities, subject to after-the-fact review by the Commission. The only requirement that a utility must satisfy in a financing application such as A.15-10-001 is to provide "a brief description and rationale for the potential use of a debt enhancement or the risk management properties associated with the potential use of a derivative instrument to hedge risk exposure."⁹ SCE provided the required information in A.15-10-001.

For ease of reference, SCE represents that the requested debt enhancements, swaps, and hedges will be used to improve the price, rates, terms, and/or conditions of the Debt Securities and to hedge financial risks associated with the Debt Securities for the benefit of ratepayers. The information provided

⁹ See D.12-06-015, at 28-30; and Attachment A at A-5, as corrected in D.12-07-003.

by SCE meets the Commission's requirement, and we will authorize SCE to use the types of debt enhancements, swaps, and hedges requested with respect to the Debt Securities, subject to the following conditions and restrictions set forth in D.12-06-015 for swaps and hedges:¹⁰

1. SCE shall list in its GO 24-C reports to the Commission any interest income and expense from swaps and hedges during the period covered by the report.
2. Swaps and hedges shall not exceed 20% of SCE's total long-term debt outstanding.
3. All costs associated with hedging transactions may be reviewed in regulatory proceedings addressing SCE's cost of capital.
4. Hedging transactions that carry potential counterparty risk must have counterparties with investment grade credit ratings.
5. If a swap or hedge is terminated before the original maturity, all termination-related costs may be reviewed in SCE's next regulatory proceeding addressing its cost of capital.
6. SCE shall provide the following to Commission staff within 30 days of receiving a written request: (i) all terms, conditions, and details of swap and hedge transactions; (ii) rationale(s) for the swap and hedge transactions; (iii) estimated costs for the "alternative" or un-hedged transactions; and (iv) copy of the swap and hedge agreements and associated documentation.

The authority granted by this decision to use debt enhancements, swaps, and hedges is limited to the Debt Securities authorized by this decision.

¹⁰ See D.12-06-015, at 29; and Attachment A at A-5, as corrected in D.12-07-003.

Preferred Equity Securities.

SCE requests permission to use the swaps and hedges identified in Section 3.5 of this decision with respect to the Preferred Equity Securities authorized by this decision. Pursuant to D.12-06-015, debt enhancements, swaps, and hedges “shall only be used in connection with Debt Securities financings.”¹¹ Preferred Equity Securities are not considered to be “Debt Securities” within the meaning of D.12-06-015. Accordingly, the Commission denies SCE’s request to use debt enhancements, swaps and hedges with respect to the Preferred Equity Securities authorized by this decision.

4.4. Other Regulatory Requirements**4.4.1. Financing Rule and GO 24-C**

The Financing Rule adopted by D.12-06-015 establishes the following regulations regarding the issuance of new Debt Securities:

- Public utilities must issue debt in a prudent manner, consistent with market standards that encompass competition and transparency, with the goal of achieving the lowest long-term cost of capital.
- Public utilities must determine the financing terms of debt issues with due regard for (i) their full financial condition and requirements, and (ii) current and anticipated market conditions.
- Public utilities may choose whether to issue Debt Securities via competitive or negotiated bid, as long as the basis for the method is chosen to achieve the lowest cost of capital.

¹¹ See D.12-06-015 at 29 and Attachment A at A-5. D.12-06-015 treats swaps and hedges as a type of debt enhancement. (D.12-06-015 at 3–4, 29–30, Finding of Fact 12, and Conclusion of Law 13.)

- Public utilities with annual operating revenues of \$25 million or more must make every effort to encourage, assist, and recruit Women-, Minority-, and Disabled Veteran-Owned Business Enterprises in being appointed as lead underwriter, book runner, or co-manager of Debt Securities offerings.
- Public utilities may use debt enhancements, swaps, and hedges for Debt Securities, subject to certain restrictions and reporting requirements, including the restrictions on swaps and hedges identified in Section 5.3 of this decision.

The Financing Rule applies to SCE and the Debt Securities, debt enhancements, swaps, and hedges authorized by this decision. To protect ratepayer interests, the Commission extends the requirements of the Financing Rule to the Preferred Equity Securities authorized by this decision.

GO 24-C requires public utilities that issue debt or equity to file a semiannual report with the Commission that includes the following information for the applicable semiannual period:

1. A description of the debt and equity issued during the semiannual period, if any, including the principal amount of each issuance, the commissions paid for each issuance, and the net proceeds received for each issuance.
2. The total amount of stock issued and outstanding at the end of the semiannual period, including the total number of shares issued and the par value, if any, of such shares.
3. The total bonds and other debt issued and outstanding at the end of the semiannual period, including the principal amount of such bonds and other debt.
4. The expenditures of debt and equity proceeds during the semiannual period and the purposes for which these expenditures were made. Expenditures must be

reported in a way that allows the Commission to ascertain the utility's compliance with § 817 and the related authorizing decision.

In addition to the above-listed reporting requirements, GO 24-C requires utilities to maintain records that demonstrate that the proceeds from the issuance of debt and equity have been used in a manner authorized by § 817 and the related authorizing decision. Utilities must make the records available to Commission staff upon written request.

GO 24-C applies to SCE and the Debt Securities and Preferred Equity Securities authorized by this decision. However, because this decision does not authorize SCE to use debt enhancements, swaps, and hedges with respect to Preferred Equity Securities, the provisions in the Financing Rule concerning debt enhancements, swaps, and hedges are not applicable to the Preferred Equity Securities authorized by this decision.

4.4.2. Ratemaking and Public Utilities Code § 451

Today's decision provides SCE with authority to issue \$3.375 billion of Debt Securities for authorized purposes including: (1) financing of capital expenditures, (2) refinancing of maturing long-term debt; (3) reimbursement of SCE's treasury for money already expended for authorized purposes; and (4) enable SCE meet and address unforeseen contingencies. Similarly, today's decision provides SCE with authority to issue \$1.450 billion of Preferred Equity Securities for the purposes listed herein above.

This decision does not authorize or approve any specific capital expenditures, construction projects, or the recovery of any costs in rates. The

all-in cost of the Debt Securities¹² and Preferred Equity Securities will be reviewed in SCE's cost-of-capital proceedings or other appropriate proceedings. The capital expenditures financed with the proceeds from the Debt Securities and Preferred Equity Securities will be reviewed in general rate case proceedings, capital project-specific proceedings, or other appropriate proceedings. Based on these reviews, the Commission will determine whether the cost of the Debt Securities, Preferred Equity Securities, and related capital expenditures may be recovered in rates pursuant to § 451, which states as follows:

All charges demanded or received by any public utility, or by any two or more public utilities, for any product or commodity furnished or to be furnished or any service rendered or to be rendered shall be just and reasonable. Every unjust or unreasonable charge demanded or received for such product or commodity or service is unlawful.

Every public utility shall furnish and maintain such adequate, efficient, just, and reasonable service, instrumentalities, equipment, and facilities, including telephone facilities, as defined in Section 54.1 of the Civil Code, as are necessary to promote the safety, health, comfort, and convenience of its patrons, employees, and the public.

4.4.3. Capital Structure and Ratio

SCE presented its capital structure, recorded as of June 30, 2015, and provided a forecasted adjusted capital structure in order to show a *pro forma* effect of the proposed Debt and Equity Securities transactions authorized herein. SCE's *pro forma* capital structure is shown in the following table.

¹² The all-in cost of the Debt Securities includes the debt enhancements, swaps and hedges authorized by this decision.

Table 4
SCE's Pro Forma Capital Structure
(\$ in Millions)

	Recorded 6/30/2015	%	Adjustment	2017 Pro Forma	%
Long-Term Debt	\$10,654	43.8%	\$2,945.1 ^{(a)13}	\$13,599.1	43.2%
Preferred Equity	\$2,070	8.5%	\$710 ^{(b)14}	\$ 2,780	8.8%
Common Equity	<u>\$11,598</u>	47.7%	<u>\$3,502</u> ^{(c)15}	<u>\$15,100</u>	<u>48.0%</u>
Total	\$24,322	100%	\$7,157.1	\$31,479.1	100.0%

In Table 4, SCE's "2017 Pro Forma" Capital Structure shows the effect of the requested issuance of Debt and Equity Securities on the utility's capital ratio or capital structure. SCE's prior authorized capital structure, as authorized in D.12-12-034, dated December 20, 2012, is of 43.00% Debt, 9.00% Preferred Stock and 48.00% Common Equity.

According to SCE, the increase in Common Equity from June 30, 2015 to the 2017 Pro Forma represents the amount necessary for SCE to maintain its

¹³ (a) Issuance of \$3,375,000,000 debt securities requested in this filing; Issuance of \$1,670,100,000 debt securities from unused debt authority; and Maturities/Redemptions of (\$2,100,000,000) long-term debt.

¹⁴ (b) Issuance of \$1,450,000,000 preferred equity requested in this filing; Issuance of \$380,000,000 preferred equity from unused debt authority; and Maturities/Redemptions of (\$1,120,000,000) preferred equity.

¹⁵ (c) Net income retained by SCE and amount necessary to maintain SCE's authorized common equity level of 48%.

authorized common equity level of 48%. The net income retained by SCE from 2015 to 2017 is reflected in the Common Equity figure.

Capital structures are normally subject to review in cost of capital or general rate case proceedings. Accordingly, this financing decision does not make a finding on the reasonableness of the projected capital structure for ratemaking purposes.

4.4.4. Public Utilities Code § 1904, Estimated Costs/Fees

Sections 1904(b) and 1904.1 require utilities to pay a fee for authority to issue debt and Equity Securities (hereafter, “§ 1904 Fee”). The § 1904 Fee does not apply when the authorized debt or equity is used to retire or refund maturing securities for which the fee was paid previously.

This decision authorizes SCE to issue \$4.825 billion of Debt Securities and Preferred Equity Securities. According to A.15-10-001, \$2.825 billion of the authorization requested for Debt Securities and Preferred Equity Securities will be used for the retirement or refunding of securities previously issued and upon which SCE previously paid a fee. Pursuant to §§ 1904(b) and 1904.1, SCE is not required to pay a fee, again, on the \$2.825 billion that it intends to use to retire or refund securities previously authorized and issued and for which SCE had previously paid a fee.

Accordingly, the §§ 1904(b) and 1904.1 fee due on the authority granted by the decision is \$1.006 million, based on \$2.0 billion of the authority granted here as shown in Table 5 below. SCE shall pay the \$1.006 million fee no later than 30 days from the effective date of this decision pursuant to § 1904(b) and 1904.1, and the authority granted by this decision will become effective upon the payment of the fee.

Nonetheless, should SCE use any portion of the \$2.825 billion described in A.15-10-001 for purposes other than the retirement, refund or reissuance of indebtedness previously issued, it shall notify the Commission and pay the corresponding fee before making such use.

Table 5

§ 1904 Fee for \$2.0 billion of Debt Securities
and Preferred Equity Securities

Amount	Rate	Fee
Total \$ Subject to Fee		
=\$2,000,000,000		
§ 1904 Fee Calculated as Follows:		
First \$1,000,000	\$2 per \$1,000	\$ 2,000
\$9,000,000	\$1 per \$1,000	\$ 9,000
\$1,990,000,000	\$0.50 per \$1,000	\$ 995,000
Total Fee Payable		\$1,006,000

The fee in the above table is limited to the fee payable pursuant to § 1904, and does not include other costs that may be associated with the new debt or equity securities issuances, including interests and dividend payments, issuance costs, annual trustee and administrative fees, among others. The above table does not include repayment of principal or the costs and benefits of debt enhancements, swaps, and hedges.

5. California Environmental Quality Act

The California Environmental Quality Act (CEQA) applies to projects that (1) may cause a direct physical change in the environment or a reasonably foreseeable indirect physical change in the environment, and (2) require discretionary approval from a governmental agency, unless exempted by statute

or regulation.¹⁶ A project is exempt from CEQA when it can be seen with certainty that the activity in question will not have a significant effect on the environment.¹⁷ The Commission is the lead agency under CEQA with respect to A.15-10-001 and, therefore, must determine if the Debt Securities and Preferred Equity Securities requested in A.15-10-001 are exempt from CEQA.¹⁸

Today's decision does not authorize any capital expenditures, construction projects, or any other activities that might have an effect on the environment. Therefore, it can be seen with certainty that the Debt Securities and Preferred Equity Securities authorized by this decision will not have a significant effect on the environment. Accordingly, the authorized Debt Securities and Preferred Equity Securities are exempt from CEQA. To ensure compliance with CEQA, SCE shall not use the proceeds from the authorized Debt Securities and Preferred Equity Securities to fund any project until the required CEQA review and approval for the project, if any, has been completed.

6. Categorization and Need for Hearings

In Resolution ALJ 176-3365, dated October 22, 2015, the Commission preliminarily categorized this proceeding as Ratesetting and preliminarily determined that a hearing is not necessary. No protests or responses were filed to A.15-10-001, and no factual issues have been raised in this proceeding that would have necessitated a hearing. Accordingly, the categorization of this

¹⁶ California Public Resources Code (Cal. Pub. Res. Code), Section 21067.

¹⁷ CEQA Guidelines, Title 14 of the California Code of Regulations, Division 6, Chapter 3, Article 20, Section 15061(b)(3). (Hereafter, CEQA Guidelines.)

¹⁸ Cal. Pub. Res. Code §§ 21065 and 21080(a), and CEQA Guidelines Section 15061(a).

proceeding as Ratesetting and the preliminary determination that a hearing is not necessary are affirmed.

7. Comments on Proposed Decision

The proposed decision of the ALJ in this matter was mailed to the parties in accordance with Section 311 of the Public Utilities Code and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure. Comments were filed on February 10, 2016 by SCE. No reply comments were received. The comments received from SCE concerns the ALJ's denial of the contingency authority requested by SCE, and the calculation of the §§1904(b) and 1904.1 fee owed due to the denial. SCE's comments have been evaluated and were found to have merit. Accordingly, the proposed decision was revised in response to the comments.

8. Assignment of the Proceeding

Carla J. Peterman is the assigned Commissioner. Adeniyi A. Ayoade is the assigned ALJ in this proceeding.

Findings of Fact

1. In Resolution ALJ 176-3365, dated October 22, 2015, the Commission preliminarily determined that a hearing is not necessary in this proceeding.
2. There are no contested factual issues in this proceeding.
3. In A.15-10-001, SCE requests authority pursuant to §§ 816-818, 821, 830, and 851 to issue \$3.375 billion of Debt Securities and \$1.450 billion of Preferred Equity Securities for authorized purposes including: (i) payment of accrued interest and other expenses incident to the issuance of the requested securities; (ii) partial financing of its \$13.063 billion capital expenditures budget from 2015-2017; (iii) refinancing of \$2.597 million of maturing long-term debt during; (iv) refinancing of \$1.445 billion of outstanding preferred equity; (v) contingency

provision in the amount of \$780 million; and (vi) reimbursement of SCE for money it has expended from its income, or from funds in its treasury that were not secured or obtained from the issuance of debt and equity, and for other purposes previously listed herein except maintenance of service and replacements. The amounts so reimbursed will become a part of SCE's general treasury funds.

4. SCE has a reasonable need for additional authority to issue \$3.375 billion of new Debt Securities to (i) partially finance its \$13.063 billion in capital expenditures budget for years 2015-2017; (ii) refinance \$1.825 billion of maturing long-term debt; (iii) finance \$1.030 billion in new long-term debt; (iv) pay accrued interest and other expenses incident to the issuance and sale of Debt Securities; (v) enable it meet and address unforeseen contingencies; and (vi) reimburse itself for money it has expended from its income, or from funds in its treasury that were not secured by or obtained from the issuance of debt and equity, and for other purposes previously listed herein except maintenance of service and replacements, with the amounts so reimbursed becoming part of SCE's general treasury funds.

5. SCE has a reasonable need for additional authority to issue \$1.450 billion of Preferred Equity Securities to: (i) partially finance its \$13.063 billion in capital expenditures budget for years 2015-2017; (ii) refinance \$995 million of preferred equity; (iii) finance \$195 million in new Preferred Equity; (iv) pay expenses incident to the issuance and sale of Preferred Equity Securities; (v) enable it meet and address unforeseen contingencies; and (vi) reimburse itself for money it has expended from its income, or from funds in its treasury that were not secured by or obtained from the issuance of debt and equity, and for other purposes

previously listed herein except maintenance of service and replacements, with the amounts so reimbursed becoming part of SCE's general treasury funds.

6. SCE has a reasonable need for the requested contingency authority to enable it meet potential contingencies and address unforeseen capital needs such as financial market disruptions, other unexpected events, and to take advantage of other potential opportunities to refinance existing debt and preferred equity into ones with lower interest rates.

7. In A.15-10-001, SCE requests authority to issue (i) the types of Debt Securities identified in Section 3.3 of this decision, and (ii) the types Preferred Equity Securities identified in Section 3.6 of this decision. The types of securities proposed will provide SCE with the flexibility to issue Debt and Preferred Equity at the lowest cost to ratepayers. No good cause exists to prohibit SCE from issuing the proposed types of securities.

8. In A.15-10-001, SCE requests authority under § 851 to issue Debt Securities secured by utility property. Granting the request will not adversely affect the public interest or SCE's ability to meet its operational responsibilities.

9. In A.15-10-001, SCE seeks authority to use (i) the debt enhancements in Section 3.4 of this decision; and (ii) the swaps and hedges in Section 3.5 of this decision with respect to the requested Debt Securities. The purpose of the debt enhancements, swaps, and hedges is to improve the price, rates, terms and/or conditions of the Debt Securities for the benefit of ratepayers, and to hedge financial risks associated with the Debt Securities for the benefit of ratepayers.

10. In A.15-10-001, SCE seeks authority to use swaps and hedges as discussed in Section 3.5 of this decision with respect to the requested Preferred Equity Securities.

11. The Debt Securities and Preferred Equity Securities authorized by this decision will not have a significant effect on the environment.

12. SCE must pay a fee of \$1.006 million on \$2.0 billion of the \$4.825 billion new authority granted that SCE intends to use to fund construction expenditures, acquisition of property, and/or reimbursement of SCE for money it has expended for those purposes, pursuant to §§1904(b) and 1904.1. SCE is not required to pay a fee on the remaining \$2.825 billion that it intends to use to retire/refund securities previously authorized and issued, for which SCE had previously paid a fee.

Conclusions of Law

1. Pursuant to §§ 816–818, SCE should be authorized to issue up to \$3.375 billion of Debt Securities to partially finance \$13.063 billion of capital expenditures, refinance \$1.825 billion of maturing long-term debt, finance \$1.030 billion in new long-term debt, and meet and address unforeseen contingencies. Pursuant to §§ 816-818, the authorized Debt Securities should be used only for the purposes identified in Findings of Fact 4 of this decision.

2. Pursuant to §§ 816–818, SCE should be authorized to issue up to \$1.450 billion of Preferred Equity Securities to partially finance its \$13.063 billion in capital expenditures, refinance preferred equity, finance new Preferred Equity, and meet and address unforeseen contingencies. Pursuant to §§ 816-818, the authorized Preferred Equity Securities should be used only for the purposes identified in Finding of Fact 5 of this decision.

3. The \$3.375 billion of Debt Securities and \$1.450 billion of Preferred Equity Securities authorized by this decision are for purposes allowed by § 817 and, as required by § 818, such purposes are not reasonably chargeable, in whole or in part, to operating expenses or income.

4. Pursuant to §§ 816–818, SCE established that the contingency financing authority granted herein will enable it meet potential contingencies and address unforeseen capital needs such as financial market disruptions, other unexpected events, and to take advantage of other potential opportunities to refinance existing debt and preferred equity into ones with lower interest rates. Pursuant to §§ 816-818, the contingency authority granted herein shall be used only for those purposes identified in Finding of Fact 6 of this decision and consistent with § 817 with authorized purposes.

5. Pursuant to § 816, SCE should be authorized to issue the types of Debt Securities and Preferred Equity Securities identified in Sections 3.3 and 3.6 of this decision.

6. Pursuant to § 821, SCE should be authorized to issue Debt Securities that are convertible into common stock using the debt enhancement features described in Section 3.4 of this decision.

7. Pursuant to § 823(d), SCE should be authorized to renew and/or refund commercial paper and other floating or variable-rate debt securities with the Debt Securities requested in the application, so that the combined term of the obligations may exceed twelve months without further authorization from the Commission.

8. Pursuant to § 830, SCE should be authorized to guarantee the obligations of regulated affiliates and government entities, subject to the conditions specified in Section 4.1.6 of this decision.

9. Pursuant to § 851, SCE should be authorized to encumber utility assets using the secured Debt Securities identified in Section 3.3 of this decision. Consistent with § 851, if a default occurs and title to any SCE property, franchise, permit, or right that is necessary or useful in the performance of SCE's duties to

the public is transferred pursuant to terms of the encumbrance, the property, franchise, permit, or right transferred should be used to provide utility service to the public until the Commission authorizes otherwise.

10. SCE has satisfied the requirements of D.12-06-015 for authority to use the debt enhancements, swaps, and hedges identified in Sections 3.4 and 3.5 of this decision with respect to the requested Debt Securities. SCE should be authorized pursuant to §§ 816-818 to use these debt enhancements, swaps, and hedges with respect to the Debt Securities authorized by this decision.

11. SCE's request in A.15-10-001 for authority to use swaps and hedges with respect to Preferred Equity Securities should be denied. The Financing Rule adopted by D.12-06-015 restricted the use of swaps and hedges to Debt Securities, and the Preferred Equity Securities authorized by this decision are not Debt Securities for Commission regulatory purposes.

12. The Financing Rule and GO 24-C apply to SCE and the Debt Securities, Preferred Equity Securities, debt enhancements, swaps, and hedges authorized by this decision.

13. Pursuant to § 816, SCE should be authorized to issue Debt Securities and Preferred Equity Securities subject to the condition that SCE maintains its Commission-authorized capital structure.

14. The authority granted by this decision to issue Debt Securities and Preferred Equity Securities is separate from the authority to (i) recover the cost of the securities in rates; (ii) purchase or construct specific utility plant with the proceeds from the securities; and (iii) recover the cost of utility plant in rates.

15. The Commission may determine in future proceedings whether the all-in costs of the Debt Securities and Preferred Equity Securities issued pursuant to this decision are just and reasonable, and recoverable in rates; and whether the

capital expenditures funded with the proceeds from the Debt Securities and Preferred Equity Securities are reasonable and recoverable in rates.

16. SCE is required by §§ 1904(b) and 1904.1 to pay a fee of \$1.006 million as set forth in Section 4.4.4 of this decision. The authority granted by this decision should not become effective until SCE has paid the fee.

17. The Commission is the lead agency under CEQA for A.15-10-001.

18. The Debt Securities and Preferred Equity Securities authorized by this decision are exempt from CEQA.

19. SCE should not use the Debt Securities and Preferred Equity Securities authorized by this decision to finance a project until SCE has obtained any required environmental review and approval for the project under CEQA.

20. There are no factual issues in this proceeding that require an evidentiary hearing. The preliminary determination in Resolution ALJ 176-3322 that a hearing is not needed should be affirmed.

21. In order for SCE to issue the Debt Securities and Preferred Equity Securities authorized by the order without delay, the following order should be effective immediately upon SCE's payment of its §§ 1904(b) and 1904.1 fee of \$1.006 million.

O R D E R

IT IS ORDERED that:

1. Southern California Edison Company (SCE) is authorized pursuant to Public Utilities Code Sections 816–818, 821, 823(d), 830, and 851 to do the following:

- a. Issue, sell, and deliver one or more series of Debt Securities with an aggregate principal amount not to exceed \$3.375 billion (Debt Securities).

- b. Use the proceeds from the Debt Securities to partially finance \$13.063 billion of its capital expenditures budget, and as requested and granted herein to: (i) refinance its maturing long-term debts; (ii) finance new long-term debts; (iii) pay accrued interests and other expenses incident to the issuance and sale of the Debt Securities; (iv) enable SCE to meet and address unforeseen contingencies; and (v) enable SCE to reimburse SCE for money it has expended from its income, or from funds in its treasury that were not secured by or obtained from the issuance of debt or equity, and for purposes previously listed except maintenance of service and replacements. The amounts so reimbursed shall become a part of SCE's general treasury funds.
- c. Issue one or more series of Preferred Equity Securities (Preferred Equity) with an aggregate principal amount not to exceed \$1.450 billion.
- d. Use the proceeds from the Preferred Equity to finance its capital expenditures, and as requested and granted herein to: (i) refinance its Preferred Equity; (ii) finance new Preferred Equity; (iii) pay expenses incident to the issuance and sale of the Preferred Equities; (iv) enable SCE to meet and address unforeseen contingencies; and (v) enable SCE to reimburse itself for money it has expended from its income, or from funds in its treasury that were not secured by or obtained from the issuance of debt and equity, and for purposes previously listed except maintenance of service and replacements. The amounts so reimbursed shall become a part of SCE's general treasury funds.
- e. Guarantee the securities, obligations, debt enhancements, swaps, and hedges of SCE regulated affiliates and government entities (together, "obligations"), subject to the following conditions:
 - (i) The obligations that are guaranteed by SCE must be directly related to the Debt Securities and Preferred Equity Securities authorized by this Order and must be used only for the purposes authorized by this Order.
 - (ii) The obligations that are guaranteed by SCE must result in an equal or lower cost of money for SCE's customers compared to SCE incurring the obligations itself.

- (iii) SCE shareholders must not profit, either directly or indirectly, from the obligations guaranteed by SCE.
 - (iv) The Commission and its staff shall have full and timely access to all affiliate books, records, and other information that pertain to the obligations that are guaranteed by SCE.
- f. Issue, sell, and deliver one or more series of the following types of Debt Securities: mortgage bonds, Debt Securities secured by a pledge of SCE's accounts receivable, debentures, notes, unsecured senior Debt Securities, subordinated Debt Securities, hybrid securities, overseas indebtedness, foreign currency denominated securities, medium-term notes, preferred securities, commercial paper, other floating or variable-rate debt, credit or loan agreements, and other evidences of indebtedness. The principal amount, terms, and conditions of each issue of Debt Securities may be determined by SCE's management and/or board of directors based on market conditions at the time of issuance.
- g. Renew and/or refund commercial paper and other floating or variable-rate Debt Securities, so that the combined term of the obligations may exceed twelve months without further authorization from the Commission.
- h. Arrange credit facilities for the purpose of issuing the Debt Securities authorized by this Order, and to modify such credit facilities without further authorization from the Commission, provided that such modifications comply with this Order.
- i. Execute and deliver an indenture or supplemental indenture in connection with the Debt Securities, and to sell, lease, assign, mortgage, or otherwise encumber utility property in connection with the issuance and sale of the Debt Securities authorized by this Order.
- j. Pledge or otherwise encumber accounts receivable in connection with the issuance and sale of Debt Securities.
- k. Issue, sell, and deliver Debt Securities by public offering or private placement.

- l. Issue, sell, and deliver, as authorized in SCE's articles of incorporation, one or more series of Cumulative Preferred Stock-\$25 Par Value, Cumulative Preferred Stock-\$100 Par Value, Preference Stock (together, Preferred Equity Securities), and depositary shares with respect to the Preferred Equity Securities.
- m. Use debt enhancements with respect to the Debt Securities authorized by this Order as identified in Section 3.4 of this Decision including: Standby bond purchase agreements, surety bonds, insurance policies, and other credit-support arrangements; redemption provisions and call options that allow Debt Securities to be redeemed or repaid prior to maturity; put options that provide the owner of a Debt Security with the right to sell the security to SCE or an affiliate under specified terms and conditions; sinking funds; and warrants that entitle the holder to purchase another Debt Security or share of capital stock, provided that debt or equity issued pursuant to warrants comply with this Order.
- n. Issue, sell, and deliver the Debt Securities and Preferred Equity Securities authorized by this Order at any time or times, not to exceed the aggregate principal amounts authorized by this Order.
- o. Use the following financial instruments to reduce financial risks associated with the Debt Securities authorized by this Order: Interest rate caps, floors, collars, swaps, and forward-starting contracts; Treasury locks and caps; and foreign currency swaps and forward-starting currency swaps. Such financial instruments shall not be considered as separate debt for the purpose of determining the aggregate principal amount of Debt Securities issued pursuant to this Order.

2. If a default occurs and title to any of Southern California Edison Company (SCE)'s assets, property, franchise, permit, or right that is necessary or useful in the performance of SCE's duties to the public is transferred pursuant to the terms of a secured debt indenture, pledge, or other encumbrance, the assets, property, franchise, permit, or right transferred shall continue to be used to provide utility service to the public until the Commission authorizes otherwise.

3. Southern California Edison Company and the Debt Securities, Preferred Equity Securities, debt enhancements, swaps, and hedges authorized by this Order are subject to (a) the Financing Rule adopted by Decision (D.) 12-06-015, as corrected in D.12-07-003; (b) General Order 24-C; and (c) the capital structure and associated capital ratios adopted by the Commission.

4. This decision does not make a finding on the reasonableness of the projected capital structure for ratemaking purposes.

5. This Order does not authorize or approve any capital projects, construction expenditures, rate base, capital structure, or cost of money.

6. Southern California Edison Company (SCE) may not use the proceeds from the Debt Securities and Preferred Equity Securities authorized by this Order to finance a project until SCE has obtained any required review and approval of the project under the California Environmental Quality Act.

7. The preliminary determination in Resolution ALJ 176-3322 that a hearing is not needed is affirmed.

8. Within 30 days from the effective date of this Order, Southern California Edison Company (SCE) shall remit a check for \$1.006 million pursuant to Public Utilities Code Section 1904 to the Commission's Fiscal Office, Room 2250, 505 Van Ness Avenue, San Francisco, CA 94102. The decision number of this Decision/Order must appear on the face of the check. The authority granted by

this Decision shall become effective when SCE pays the fee required by Section 1904.

9. If SCE intend to use any portion of the \$2.825 billion described herein in Section 4.4.4 above for purposes other than the retirement, refund or reissuance of indebtedness previously issued, it shall notify the Commission and pay the corresponding fee before making such use.

10. Application 15-10-001 is granted to the extent set forth in the previous Ordering Paragraphs.

11. Application 15-10-001 is denied to the extent it requests authority to use the swaps and hedges authorized by this Order in connection with the Preferred Equity Securities authorized by this Order.

12. Application 15-10-001 is closed.

This order is effective today.

Dated _____, at San Francisco, California.